Hugh Russel
& Sons, Limited

Annual Report

To Shareholders: 1969

INDEX

Hugh Russel
& Sons, Limited

DIRECTORS

J. P. FOSTER — *Toronto*

M. D. GLENN — *Montreal*

R. HARTOG — *Midland*

K. D. MOONEY — *Toronto*

J. D. REILLY, Q.C. — *Toronto*

L. A. ROBIDOUX — *Montreal*

A. D. RUSSEL — *Toronto*

G. D. RUSSEL — *Montreal*

G. D. SHEARER, C.A. — *Montreal*

J. W. VINGOE — *Toronto*

Executive Officers

G. D. RUSSEL — *Chairman of the Board*

A. D. RUSSEL — *President*

M. D. GLENN — *Vice-President*

J. P. FOSTER — *Vice-President*

J. D. REILLY, Q.C. — *Secretary*

G. D. SHEARER, C.A. — *Treasurer*

Registrars and Transfer Agents

Royal Trust Company

Stock Exchanges

Montreal and Toronto

Auditors and Solicitors

AUDITORS — *Clarkson, Gordon & Co.*

SOLICITORS — *Salter, Reilly, Jamieson & Apple*

Subsidiary Companies

RUSSELSTEEL LIMITED

RUSSELSTEEL COMPANY

MASTER MECHANICAL MANUFACTURING LIMITED

BARKER-THORNE LIMITED

CEECO MACHINERY MANUFACTURING LIMITED

CANADIAN BEARINGS LIMITED

Head Office

8 KING ST. E. — TORONTO

Annual Meeting

ROYAL YORK HOTEL
TORONTO

March 26, 1970

Report from the President

1969 proved to be a highly significant year for Hugh Russel & Sons, Limited. It was a year in which we saw new records established for sales and earnings and an important strengthening of the company's financial ability to take advantage of future opportunities.

Financial results for the years 1968/1969 and a ten year financial summary are set out in this report beginning on page (8), so these remarks are intended to provide background information of more general interest.

Our principal objective is to increase the value of our shareholders' investment by achieving sound growth. It is apparent when reviewing the existing activities that substantial progress has been made, particularly in the area of steel distribution.

Russelsteel Limited

As each year passes, we begin to reap the benefits of investments made two, three or four years earlier. For example, Russelsteel's excellent profit contribution in 1969 was greatly enhanced as a result of the large investment in plant and equipment made in the period 1964-1967. The company invested more than $4.6 million dollars in new warehousing plant, steel processing equipment and inventories in Montreal, Toronto, Hamilton and Winnipeg during these years.

In the early summer of 1969, Canadian industry was faced with curtailed steel supplies due to strikes at The Steel Company of Canada and Algoma Steel Corporation. As a result of investments made earlier in plant and inventories, Russelsteel was well prepared to meet the unusually heavy demands for supplies resulting from these strikes as well as keep pace with normal demand.

In 1969 a new sheet coil processing mill was installed which almost doubled existing processing capacity. Demand for steel and steel products continues to be strong in spite of the restrictive monetary policies being followed by the Federal government, and Russelsteel is scheduled to add important new slitting equipment in this current year.

We believe Russelsteel will have a good year again in 1970.

Barker-Thorne Limited

Barker-Thorne turned in a creditable earnings contribution during the year and continued to prove its reputation as a quality tool and die maker.

Master Mechanical Manufacturing Limited

Master Mechanical Manufacturing Limited is a quality source for special purpose production machinery and tooling. While this is a potentially profitable field of endeavour, Master encountered difficulties in achieving its earnings potential in 1969. Corrective measures taken mid-year improved results in the second half and a better 1970 is anticipated.

Ceeco Machinery Manufacturing Limited

Ceeco Machinery Manufacturing Limited is engaged in the design and assembly of specialized wire and cable making equipment. Ceeco was acquired as a high growth investment in 1968 and is giving every assurance of living up to early expectations. In the spring of 1969, volume had expanded to the point where a move to a new plant was essential. This move was successfully completed by July. As a result of additional business booked in the fall, a further 50% increase in plant is now under construction.

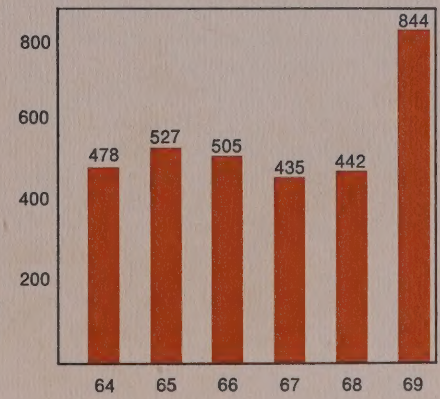
Ceeco is unique in Canada in its field and is already emerging as an important supply factor to the North American wire and cable industry. The equipment produced by Ceeco, while competitive in price to the equipment produced by others, offers significant advantages in performance.

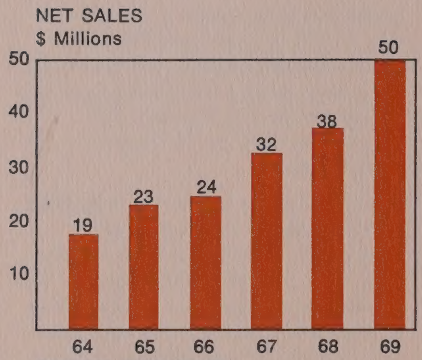
Serving the steadily growing field of electrical power transmission, Ceeco holds the promise for considerable growth and is now in a position to make an important contribution to earnings.

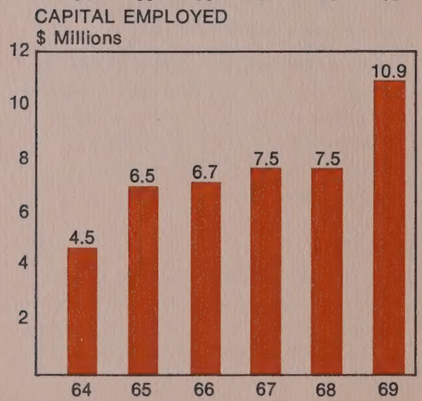
Earnings

The accompanying charts illustrate that earnings are now reflecting the growth in sales and capital employed which has taken place over the past few years.

NET PROFIT
$ Thousands







Financing

An important step forward was made in June 1969 by placing a $3.3 million issue of preferred shares.

In the face of continued high interest rates and tight credit, the issue of these preferred shares provides a degree of financial flexibility which will enable management to aggressively pursue opportunities for new growth.

New Investments

We continue to seek to augment internal operations by investing in complementary activities with above average growth potential. The latest development in this respect is the acquisition of the leading Canadian firm in the field of bearings distribution.

Canadian Bearings Limited

In July 1969, Canadian Bearings Limited joined the Hugh Russel group of companies and its results are included in the consolidated statement of earnings since that date. Canadian Bearings Limited sells replacement bearings and power transmission components to industry through outlets in Peterborough, Toronto, Hamilton, and St. Catherines. The bearings of all major manufacturers are carried in stock along with a wide range of power transmission components such as gear reducers, belts, chains, sprockets and associated replacement parts. The company stocks more than 25,000 separate items.

The replacement parts business is large and stable, covering every conceivable class of business from public utilities, schools and construction contractors to the largest of industrial plants. Since Canadian Bearings Limited operates exclusively in Ontario, opportunities for future growth appear to be excellent.

Investment Policy

In making new investments, we are not unduly influenced by short term considerations. The best investments often involve development or dislocation costs for some time after the investment is made. Venture capital situations also hold considerable interest where a relatively small investment in new technique or technology offers the opportunity of very rapid earnings growth.

Areas of Interest

In determining new areas of interest, we look for situations where the unique and special experience of our management can make a real contribution. We look at potential acquisitions in terms of management strengths, market position, products or developments and the potential for more than ordinary growth. We look for companies which have established records of growth and need some of the resources we can provide to maintain or expand that growth. This may be in finance, business planning, established capabilities, stature, or simply understanding and encouragement.

Outlook for 1970

Based on existing operations of the Russel group of companies, we forecast net earnings for 1970 of between $2.50 and $2.75 per common share. This would not take into account the effect of new acquisitions which could improve these results.

A number of excellent potential investments are currently being studied, and one or more should materialize during 1970.

To the management and staff who share the responsibility for the success of the enterprise, the directors wish me to express their thanks.

F. Russel

President

February 6, 1970

Auditors' Report

To the Shareholders of **Hugh Russel & Sons, Limited:**

We have examined the consolidated balance sheet of Hugh Russel & Sons, Limited and its subsidiary companies as at December 31, 1969 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Canada
January 31, 1970
(Except as to note 8 which is
as of February 16, 1970)

Clarkson, Gordon & Co.

Chartered Accountants

Hugh Russel & Sons, Limited

Financial Summary

(Dollar figures in thousands)

Operating results

	1969	1968	1967
Net Sales	$49,819	$38,375	$32,473
Earnings before deducting depreciation, interest on long-term debt, minority interest and income taxes	$ 2,413	$ 1,435	$ 1,210
Depreciation	$ 310	$ 287	$ 245
Interest on long-term debt	$ 148	$ 150	$ 153
Income taxes	$ 1,072	$ 516	$ 371
Minority interest	$ 40	$ 40	$ 6
Net earnings	$ 843	$ 442	$ 435
OPERATING STATISTICS			
% Net earnings to net sales	1.7%	1.1%	1.3%
% Net earnings to shareholders equity	18.2%	9.8%	10.4%
% Total dividends to net earnings	43.3%	56%	56%
PER SHARE OF COMMON STOCK			
Based on common shares outstanding (thousands)	313	311	308
Net earnings (after preferred dividends)	$ 2.32	$ 1.42	$ 1.41
Cash flow	$ 3.31	$ 2.14	$ 2.54
Book value	$ 15.91	$ 14.92	$ 14.69
OTHER STATISTICS			
Current assets/current liabilities	1.5:1	1.3:1	1.4:1
Shareholders' Equity/Long term debt	3.6:1	1.9:1	1.9:1
Additions to facilities (thousands)	$ 437	$ 272	$ 392
Number of Common Shareholders	760	611	643

Balance sheet data

	1969	1968	1967
Current Assets	$17,659	$17,816	$14,091
Current Liabilities	$11,523	$14,133	$10,385
Working Capital	$ 6,136	$ 3,683	$ 3,706
Fixed assets at cost	$ 6,054	$ 5,303	$ 5,045
Less Accumulated depreciation	$ 2,470	$ 2,059	$ 1,785
Net Fixed Assets	$ 3,584	$ 3,244	$ 3,260
Other assets	$ 1,273	$ 553	$ 514
Capital employed	$10,993	$ 7,480	$ 7,480
Financed by:			
Long-term debt	2,292	$ 2,349	$ 2,399
Deferred income taxes	58	$ 135	$ 200
Minority interest	356	$ 356	$ 356
Shareholders' equity	8,287	$ 4,640	$ 4,525

1966	1965	1964	1963	1962	1961	1960
$24,157	$22,975	$19,436	$15,015	$14,218	$14,051	$13,406
$ 1,354	$ 1,309	$ 1,125	$ 631	$ 506	$ 397	$ 365
$ 205	$ 155	$ 133	$ 121	$ 122	$ 131	$ 127
$ 156	$ 50	$ 53	$ 58	$ 63	$ 68	$ 74
$ 488	$ 577	$ 461	$ 140	$ 129	$ 32	$ 49
—	—	—	—	—	—	—
$ 505	$ 527	$ 478	$ 312	$ 192	$ 166	$ 115
2.1%	2.3%	2.5%	2.1%	1.4%	1.2%	0.9%
12.9%	13.8%	14.2%	9.9%	6.3%	5.8%	4.2%
47%	42%	36%	56%	67%	—	—
294	292	289	288	288	288	288
$ 1.71	$ 1.80	$ 1.65	$ 1.08	$ .67	$ .57	$ .40
$ 2.41	$ 2.36	$ 2.11	$ 1.50	$ 1.09	$ 1.03	$ .84
$ 14.21	$ 13.30	$ 13.20	$ 11.67	$ 10.94	$ 10.58	$ 9.86
1.4:1	1.5:1	1.4:1	1.6:1	1.7:1	1.6:1	1.7:1
1.7:1	1.6:1	5.7:1	4.6:1	3.8:1	3.7:1	2.9:1
$ 475	$ 1,153	$ 992	$ 51	$ 32	$ 57	$ 380
667	691	620	661	667	N.A.	N.A.
$11,701	$10,025	$ 8,273	$ 7,411	$ 6,329	$ 6,891	$ 5,683
$ 8,107	$ 6,475	$ 5,843	$ 4,700	$ 3,817	$ 4,442	$ 3,351
$ 3,594	$ 3,550	$ 2,430	$ 2,710	$ 2,512	$ 2,449	$ 2,332
$ 4,415	$ 4,041	$ 3,001	$ 2,321	$ 2,288	$ 2,215	$ 2,050
$ 1,282	$ 1,140	$ 905	$ 940	$ 829	$ 711	$ 554
$ 3,133	$ 2,901	$ 2,096	$ 1,381	$ 1,459	$ 1,504	$ 1,496
—	—	—	—	—	—	—
$ 6,727	$ 6,451	$ 4,526	$ 4,091	$ 3,971	$ 3,953	$ 3,828
$ 2,453	$ 2,500	$ 671	$ 730	$ 819	$ 905	$ 989
$ 97	$ 67	$ 40	—	—	—	—
—	—	—	—	—	—	—
$ 4,177	$ 3,884	$ 3,815	$ 3,361	$ 3,152	$ 3,048	$ 2,839

Hugh Russel
& Sons, Limited

Notes to Consolidated Financial Statements
DECEMBER 31, 1969

1. Principles of consolidation — During the year the company acquired the shares of Canadian Bearings Limited in exchange for cash totaling $1,400,000. The earnings of this new subsidiary are included in the net earnings for the year from date of acquisition.

The consolidated financial statements include the accounts of all subsidiary companies.

2. Prior years' income taxes recoverable — Agreement has been reached with the taxation authorities with respect to assessments for prior years which were in dispute. As the effect of the agreement is that this amount will be recovered in 1970 it is included in "Prepaid Expenses and Other Assets" at December 31, 1969.

3. Long-term debt —

6¼% Secured Sinking Fund Debentures, Series A, maturing October 15, 1985 —	
Originally authorized	$2,500,000
Outstanding ($25,000 redeemed during the year for sinking fund)	$2,336,000
Less required for sinking fund redemptions and included in current liabilities.	44,000
	$2,292,000

The debentures are secured by a first mortgage on all of the shares of Russelsteel Limited (a wholly owned subsidiary) and on the fixed assets of that subsidiary, and by first floating charges on the remaining assets of the Company and Russelsteel Limited. Payments over the next 5 years will total $310,000. The trust deed provides for a sinking fund to retire by redemption $1,500,000 principal amount by progressive annual appropriations to 1984. Under the terms of the trust deed, the company is prohibited from paying dividends, other than cumulative preferred dividends or stock dividends, if the combined equity of the company and certain subsidiaries is reduced to less than $3,500,000 or combined net current assets are reduced to less than $2,000,000.

4. Capital stock — The authorized capital stock of the Company consists of:

Preferred shares:

500,000	First preferred shares of the par value of $20 each, issuable in series, of which 165,000 are designated as 6½% cumulative redeemable convertible First preferred shares series "A". The 165,000 designated shares are redeemable at $24.00 or, at the holder's option are convertible into Class "A" or Class "B" Common Shares on a share for share basis.
41,604,945	4% non-cumulative Second preferred shares of the par value of 1¢ each, redeemable at par.

Common shares:

2,000,000	Class "A" common shares without par value, convertible into Class "B" common shares on a share for share basis.
2,000,000	Class "B" common shares without par value, convertible into Class "A" common shares on a share for share basis.

During the year, the following transactions occurred;

165,000	6½% First preferred shares, series "A", were issued for cash totalling $3,300,000.
12,570,480	Second preferred shares were issued at par as stock dividends on the Class "B" common shares. These were later redeemed out of capital for cash resulting in 41,604,945 Second preferred shares authorized at December 31, 1969.
23,135	Class "B" common shares were converted into Class "A" common shares.
405	Class "A" common shares were issued for $5,954 as a result of options exercised by officers and employees under the company's stock option plan.
1,893	Class "A" common shares were issued for $29,342 to employees under the company's employee share purchase plan.

At December 31, 1969, the following Class "A" common shares are reserved:

22,181	Shares for issue under options granted to officers and employees and exercisable in instalments over periods ending June 25, 1979 as follows:
2,500 shares @	$11.25 per share
496 shares @	12.15 per share
1,385 shares @	13.50 per share
7,800 shares @	16.20 per share
10,000 shares @	17.10 per share
707	Shares for additional options to be granted in the future.
6,107	Shares for the company's employee share purchase plan.

5. Depreciation — Depreciation has been provided on the fixed assets of the companies on a straight-line basis at the following rates:
Buildings — 2½% and 5%
Machinery and equipment — 10%.

6. Statutory information — Remuneration of $248,648 to directors and senior officers has been deducted in determining net earnings ($197,152 in 1968).

7. Commitments — In 1968, a subsidiary purchased the net assets of another business. The amount to be paid for purchased goodwill and the timing of the payments is to be based upon future average earnings beginning March 1, 1968. No provision for this commitment is required at December 31, 1969.

The company and its subsidiaries is committed to annual rental payments of approximately $210,000 on leases, principally assumed through acquisitions, expiring in the years 1972 to 1982.

8. Events subsequent to year-end — The company has agreed to acquire all of the outstanding common shares of Hector Steel Industries Limited at a formula price which is based on average earnings of Hector for the 5 years ending December 31, 1974, subject to a ceiling of $6 million. The total purchase price will be payable in cash or securities of the company at the company's option over a 5 year period. In addition the company has agreed to invest approximately $2 million in Hector to provide for new facilities ($450,000), redemption of preferred shares ($333,000) and additional working capital.

Hugh Russel
& Sons, Limited
(INCORPORATED UNDER THE LAWS OF CANADA)

and its subsidiary companies

Consolidated Balance Sheet
December 31, 1969
(with comparative figures at December 31, 1968)

	1969	1968
ASSETS		
Current:		
Accounts receivable, less allowance for doubtful accounts	$ 7,963,726	$ 8,040,248
Inventories valued at the lower of average cost and market (net realizable value)	9,165,730	9,445,955
Prepaid expenses and other assets	530,036	329,576
Total current assets	$17,659,492	$17,815,779
Fixed, at cost:		
Land	$ 328,935	$ 320,655
Buildings	2,680,733	2,592,785
Machinery and equipment	3,045,276	2,389,216
	$ 6,054,944	$ 5,302,656
Less accumulated depreciation	2,470,387	2,059,138
	$ 3,584,557	$ 3,243,518
Other:		
Prior years income taxes recoverable (note 2)	—	$ 154,825
Premiums paid on acquisitions	$ 1,272,667	398,178
	$ 1,272,667	$ 553,003
	$22,516,716	$21,612,300
LIABILITIES		
Current:		
Bank indebtedness (secured by receivables and inventories)	$ 4,183,471	$ 5,586,865
Accounts payable and accrued charges	6,707,146	8,123,499
Income taxes payable	588,519	410,434
Sinking fund redemption due within one year (note 3)	44,000	12,000
Total current liabilities	$11,523,136	$14,132,798
Deferred income taxes	$ 58,750	$ 135,000
Long-term debt (note 3)	$ 2,292,000	$ 2,349,000
Minority interest in preference shares of subsidiary	$ 355,834	$ 355,834
Shareholders' equity		
Capital Stock		
Authorized: (Note 4)		
Issued: (Note 4)		
165,000 6½ % Preferred shares	$ 3,300,000	—
132,895 Class "A" common shares 180,525 Class "B" common shares (1968 — 311,122 common shares)	354,526	$ 319,231
Retained earnings	4,632,470	4,320,437
	$ 8,286,996	$ 4,639,668
	$22,516,716	$21,612,300

On behalf of the Board:

M. D. GLENN, Director

A. D. RUSSEL, Director

(See accompanying notes)

Hugh Russel
& Sons, Limited

Consolidated Statement of Earnings
For the year ended December 31, 1969
(with comparative figures for 1968)

	1969	1968
SALES	**$49,818,695**	$38,375,238
Earnings from operations before deducting the following items:	**$ 2,413,292**	$ 1,435,418
Depreciation	**309,913**	287,540
Interest on long-term debt	**147,813**	149,556
	$ 457,726	$ 437,096
Earnings before income taxes and minority interest	**$ 1,955,566**	$ 998,322
Income taxes	**1,071,732**	516,422
Minority Interest	**40,000**	40,000
	$ 1,111,732	$ 556,422
Net earnings for the year	**$ 843,834**	$ 441,900

Consolidated Statement of Retained Earnings
For the year ended December 31, 1969
(with comparative figures for 1968)

	1969	1968
Balance, beginning of the year	**$ 4,320,437**	$ 4,250,597
Net earnings for the year	**843,834**	441,900
	$ 5,164,271	$ 4,692,497
Deduct:		
Dividends paid Common shares (including stock dividends on Class "B" Common shares and special tax thereon)	**249,134**	246,409
Dividends paid Preferred Shares	**116,325**	—
Expenses incurred to issue Preferred Shares	**166,342**	—
Loss on disposal of investments	**—**	125,651
	$ 531,801	$ 372,060
Balance, end of year	**$ 4,632,470**	$ 4,320,437

(See accompanying notes)

Consolidated Statement of Source and Application of Funds

For the year ended December 31, 1969

(with comparative figures for 1968)

	1969	1968
Funds were obtained from:		
Operations —		
Net earnings for the year	**$ 843,834**	$ 441,900
Expenses not requiring a current cash outlay —		
Depreciation	**309,913**	287,540
Income taxes (deferred portion)	**(76,250)**	(65,000)
	$1,077,497	$ 664,440
Employee Share Purchases	**29,341**	44,009
Prior years taxes recoverable	**154,825**	—
Stock Options exercised	**5,954**	243
Issue of preferred shares (net)	**3,133,658**	—
Sundry	**31,136**	1,051
	$4,432,411	$ 709,743
Funds were applied to:		
Pay premiums on acquisitions	**$ —**	$ 39,460
Additions to facilities	**437,423**	271,552
Pay dividends on common shares	**249,134**	246,409
Pay dividends on preferred shares	**116,325**	—
Retire debentures	**57,000**	50,000
Finance loss on disposal of investments	**—**	125,651
Purchase of shares of subsidiary (less working capital acquired)	**1,119,154**	—
	$1,979,036	$ 733,072
Increase (decrease) in working capital	**$2,453,375**	$ (23,329)
Working capital, beginning of year	**3,682,981**	3,706,310
Working capital, end of year	**$6,136,356**	$3,682,981

(See accompanying notes)

Hugh Russel
& Sons Limited

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Russelsteel Limited

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Telex: 05-25178

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Township of Vaughan,
Ontario.
Tel: 223-2220
Telex: 02-2868

HAMILTON
All Mail to:
P.O. Box 186,
Downsview, Ontario.

Warehouse at:
519 Parkdale Ave. N.,
Hamilton, Ontario.
Tel: 527-1136
Telex: 02-1603

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Tel: 474-2306
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CEECO
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Canadian Bearings Limited

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